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NEWS RELEASE

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PSC ISSUES REPORT ON ELECTRIC REGULATORY POLICY *Study required by Kentucky's 2007 Energy Act*

FRANKFORT, Ky. (July 2, 2008) – The Kentucky Public Service Commission (PSC) has completed a legislatively mandated study of how Kentucky's regulation of electric utilities intersects with state energy policy.

The report, entitled "Electric Utility Regulation and Energy Policy in Kentucky," was delivered Monday to the Kentucky General Assembly. It is available on the PSC Web site at http://psc.ky.gov/agencies/psc/hot_list/hb1report.pdf.

"This report, required by the energy bill enacted during the 2007 special session, takes a detailed look at the intersection of utility regulation with energy policy," PSC Chairman David Armstrong said. "It is the product of ideas and input from the PSC staff, an independent consultant hired by the PSC, utility companies and many stakeholder groups representing utility customers large and small, environmental interests and energy producers.

"I am sure that the information and recommendations in this report will be helpful to policy makers and legislators as Kentucky creates an economically and environmentally sustainable energy policy," he said.

Section 50 of the 2007 Energy Act directed the PSC to examine four issues: eliminating impediments to consideration of cost-effective demand-side management; encouraging diversification of energy supply through renewable sources and distributed generation; incorporating full-cost accounting into decisions on energy supply; and changing rate structures and cost recovery to better align financial interests of utilities with the goal of increased energy efficiency.

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Overland Consulting of Overland Park, Kan., was retained by the PSC to assist in gathering information and making recommendations. It conducted interviews with the six regulated utilities in Kentucky that generate electricity and with other interested parties. Many of the parties submitted testimony to the PSC and participated in a hearing on April 30. (A list of participants in the case follows.)

Overland submitted 28 recommendations in its report to the PSC. An additional 11 recommendations were made by other participants. Most of the recommendations pertained to one or more of the four issues identified in the 2007 Energy Act.

The PSC report analyzes and responds to each of the 39 recommendations. It identifies those deemed most important by the PSC.

The report notes that legislators already have acted on the second of the four energy act issues by passing Senate Bill 83 during the 2008 general session. The bill expands the opportunities for net metering, which allows customers who operate renewable energy sources to send any excess power back to their electric utilities and receive a credit against their electric bills. The PSC has opened a proceeding (Case No. 2008-00169) to develop guidelines for net metering and interconnection of the energy sources to the electric grid.

The PSC recommends that Kentucky law be amended to expand opportunities for demand-side management programs. The PSC also states that it intends to amend its regulations to implement several recommendations in the report. The changes would clarify certain rules pertaining to industrial customers and set standards for evaluating demand-side management programs to verify that they are meeting their objectives of reducing electric usage.

In addition to the report, testimony and evidence submitted in the case may be found on the PSC Web site, psc.ky.gov. The case number is 2007-00477.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 100 employees.

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LIST OF PARTICIPANTS FOLLOWS

PARTICIPANTS IN CASE 2007-00477

- Big Rivers Electric Corp.
- Duke Energy Kentucky Inc.
- East Kentucky Power Cooperative Inc.
- Kentucky Power Company/American Electric Power
- Kentucky Utilities Co.
- Louisville Gas and Electric Co.
- Kentucky Office of Attorney General
- Kentucky Industrial Utility Customers, Inc.
- Kentucky Oil and Gas Association
- Community Action of Kentucky
- Association of Community Ministries
- People Organized and Working for Energy Reform
- Sierra Club – Kentucky Chapter
- Stand Energy Corp. Customer Group
- Community Action Council of Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc.
- Governor's Office of Energy Policy